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SUBJECT: ARGENTINA SCENE-SETTER FOR CODEL MCCONNELL

11. (U) INTRODUCTION AND SUMMARY: On behalf of Embassy Buenos Aires, I warmly welcome your visit to Argentina on January 10-12. Your visit comes at a time of considerable ferment in the Argentine political and economic arenas. On October 23, President Kirchner won a resounding victory in mid-term legislative elections. Based on these results, Kirchner has tightened his already firm personal control of political and economic policy. The Government of Argentina's performance at the recent Summit of the Americas gained no new friends for Argentina. As a member of the UNSC, Argentina has worked closely with us on issues such as UN reform, counterterrorism, non-proliferation, and regional issues such as peacekeeping in Haiti. Argentina is seeking to consolidate its impressive economic recovery from the 2001-2002 crises. It has successfully restructured over USD 81 billion of private debt, following the largest sovereign default in history. Argentina also just canceled its debt with the IMF by paying the remaining nearly USD 10 billion it owed to the Fund. The debt restructuring will be a key component in reintegrating Argentina into world capital markets. END INTRODUCTION AND SUMMARY.

Background

12. (U) Argentina was once one of the richest countries of the Hemisphere, achieving a GNP per capita that was among the highest in the world in the early 20th century. However, the history of Argentina over the last 70 years has been one of economic decline and political instability. Many Argentines are at a loss to explain how their country, blessed with rich natural resources, a fertile land and manageable population numbers, could have fallen so far. Some blame the military dictatorships, which controlled events from 1930-1983; others blame Peron and "Peronism;" and a significant number blame external factors: the IMF, the U.S., and, to a lesser extent, Europe. Gone are the "carnal relations" with the U.S. when Argentina stood out as one of the top U.S. allies in the world during the administration of former President Carlos Menem during the 1990s. The 2001-2002 economic crisis, the worst in Argentine history, changed all that. The election of left-wing Peronist Nestor Kirchner in 2003 marked a different approach in Argentine foreign policy, aligning Argentina more closely with its MERCOSUR partners. That said, Kirchner has cooperated closely with the U.S. on a number of issues, including counter-terrorism and narcotics, and regional problems like Bolivia and Haiti.

Political Landscape

¶3. (U) Kirchner won a major victory in the October 23 legislative and provincial elections. Kirchner gained a strengthened mandate and beat out his rivals for control of the ruling Peronist Party (PJ). Kirchner is politically strong at home and faces a weak and divided opposition. Argentines give Kirchner much of the credit for the country's Phoenix-like recovery from its 2001-2002 economic crisis, an event equivalent to our Great Depression. His already high approval ratings climbed last year after the conclusion of an audacious debt exchange offer that offered private creditors just over thirty cents on the dollar.

Argentina Fumbles Summit of the Americas

¶4. (U) As chairman and host of the Summit, Argentina failed to forge unity and achieve consensus where possible. On the plus side, we reached our essential Summit goals in the Declaration and Plan of Action and 29 of the 34 Heads of State present voiced support for the launch of FTAA negotiations. We do not expect Kirchner's public posturing in Mar del Plata to affect the excellent cooperation we continue to receive from Argentina on the key issues of counter terrorism, counter narcotics, and nonproliferation. Although many in Argentina have criticized the GOA's handling of the Summit, we do foresee the GOA paying a domestic political price as a result.

Kirchner's New Cabinet

¶5. (U) On November 28, the Casa Rosada named replacements for several key cabinet positions. President Kirchner appointed the Ambassador to Venezuela Nilda Garre as the new Defense Minister. Kirchner also surprised local pundits by appointing Banco Nacion President Felisa Miceli to replace Roberto Lavagna as Minister of the Economy. Deputy Foreign Minister Jorge Taiana was tapped to be the new Foreign Minister. Taiana has been the intellectual powerhouse for the left in the Foreign Ministry during the Kirchner administration. Finally, long-time Alicia Kirchner associate Juan Carlos Nadalich was announced as the new Minister for Social Development.

Economic Situation

¶6. (U) Argentina has had an impressive economic recovery since suffering the worst economic crisis in its history -- including the largest sovereign default in history and a devaluation of its currency -- in 2001-02. An export-led boom triggered an 8.7 percent surge in real GDP in 2003, 9 percent in 2004, and estimated growth of 7.8 percent in 2005. The Kirchner Administration has ably managed the nation's public finances and achieved large budget surpluses. Investment has increased to 18 percent of GDP, but still is below the OA's target. Unemployment declined to 12.1 percent in June, but has not fallen as fast as the economy is growing, largely due to a slow recovery in the service sector. Poverty has also fallen from the post-crisis level of 60 percent, but remains stubbornly high. During the first half of 2005, 38.5 percent of the population was living below the poverty line and 13.6 percent was considered destitute.

¶7. (U) Argentina's robust economic recovery is the result of major economic reforms in the 1990s, the adoption of a market-based exchange rate regime in early 2002, and the combination of high commodity prices and low interest rates. Argentina has sound economic fundamentals and should continue to perform well in 2006, but will need to lower its inflation rate (6.1 percent in 2004, an estimated 11.4 percent in 2005) and increase investment to sustain its growth, reduce unemployment and poverty. Argentina negotiated a debt exchange with 76 percent of its creditors in 2005. Argentina canceled its debt with the IMF on January 3, 2006 by paying the nearly USD 10 billion it owed to the Fund.

Regional Influence

¶18. (U) Argentina has played a positive role in promoting human rights and democratic institutions in the hemisphere, particularly in Haiti and Bolivia. Along with a number of its neighbors, Argentina currently has 575 peacekeeping troops in Haiti in support of MINUSTAH, reflecting its traditionally strong support of UN peacekeeping operations and commitment to Haiti. President Kirchner has been a strong supporter of constitutional democracy in Bolivia over the last year. Argentina sent a group of election observers to the recent presidential elections in Bolivia, headed by former Argentine Vice President and current Mercosur President, Carlos "Chacho" Alvarez. Argentina's stated policy on Bolivia mirrors the U.S. policy of supporting Bolivia's constitutional democracy.

¶19. (U) In Venezuela, President Kirchner also played a constructive role in pressing Chavez to hold a recall referendum in 2004 and met with the Venezuelan opposition on two occasions in 2004. More recently, Argentina has sought stronger economic ties with Venezuela. President Kirchner traveled to Puerto Ordaz to meet with Chavez November 22 to discuss a proposed gas pipeline. In January 2005, Argentina assumed a two-year seat on the UN Security Council.

Strong on Counter-Terrorism

¶10. (U) Kirchner's administration has strongly supported counter-terrorism policies. The GOA has ratified all of the 12 international counter-terrorism conventions. Argentina is a participant in the Three Plus One regional mechanism, which focuses on possible terrorist-related activity in the Tri-border region between Argentina, Brazil, and Paraguay.

Equally Strong on Non-Proliferation

¶11. (U) The GOA has been a strong international voice on arms control and nonproliferation issues. On Iran, the GOA voted to refer Iran's noncompliance to the UNSC at the September 24 IAEA Board of Governors meeting. The GOA has also endorsed the Proliferation Security Initiative (PSI) and has offered to host a PSI exercise. On the IAEA Additional Protocol, the Argentines traditionally have followed the Brazilians, but they may eventually sign the AP with or without the Brazilians. Finally, the GOA has implemented the Container Security Initiative (which scans containers for WMD components) and is in the final stages of negotiating an MOU on the Megaports Initiative -- which will passively detect radioactive materials moving through the Buenos Aires seaport -- the first such agreement in South America.

Military-Military Cooperation

¶12. (U) The U.S. military enjoys excellent relations with their Argentine counterparts. Argentine forces participate frequently in exercises with U.S. and regional forces (outside of Argentina) and are currently contributing about 575 troops to the Haiti PKO. We are stymied, however, by the lack of a political-level agreement on immunities, (i.e. administrative and technical immunities, as defined in the Vienna Convention on Consular Relations, which would be extended to U.S. service members on exercises in Argentina). The lack of this type of agreement precludes many bilateral exercises on Argentine territory. The Argentines unfortunately confuse the immunities issue with Article 98, which deals only with the International Criminal Court.

GUTIERREZ